MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

DTX5028 – TAXATION 2

(All sections)

22 OCTOBER 2016
2.30 p.m -5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **10** pages (**9** pages with **5** questions and **1** page of appendix).

2. Answer **ALL** questions.

3. Write your answers in the answer booklet provided.

QUESTION 1 [TOTAL 25 MARKS]

Part A

SkyGix Sdn Bhd is a manufacturer of computer products. The profit and loss account of the company for the year ended 31 October 2015 is as follows:

	Note	RM'000	RM'000
Sales			85,700
Cost of sales	1		57,500
			28,200
Other income:			
Interest remitted from foreign bank			90
Rental			210
Dividend (net)			54
Insurance recovery	2		140
			28,694
Less:			
Wages and salaries	3	2,718	
Staff welfare	4	156	
Freight and insurance	5	2,302	
Subscriptions and donations	6	385	
Lease rental	7	54	
Provision for bad debts	8	461	
Foreign exchange loss	9	45	
Rental of premises	10	936	
Legal and professional fees	11	204	
Motor vehicle expenses	12	830	
Repairs and maintenance		2,619	10,710
Profit before taxation			17,984

Notes:

(1) Cost of sales includes:

i) Advertising costs amounting to RM2,500 for business magazine announcements stating that a particular agent was no longer authorized to represent SkyGix Sdn Bhd.

ii) The company's trading stocks stated after deducting a general provision of 7% for obsolescence were as follows:

As at 31 October 2014	RM4.3 million
As at 31 October 2015	RM3.835 million

iii) Compensation of RM300,000 was received from an insurance company for a machine damaged due to fire.

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(2) An amount was received from an insurance company, Alliance Sdn Bhd, in respect of the death in an accident of the company's Chief Operating Officer, Mr. Peter. The company is the beneficiary of a policy which compensates the company for loss of profits resulting from the death or disablement by accident of its key personnel.

(3) Wages and salaries include:

i) The Employees Provident Fund contributions made by the company at the rate of 23% in respect of its key personnel amounted to RM690,000.

ii) Remuneration of disabled employees amounted to RM98,000.

iii) A three-month bonus paid to 5 directors of the company, whose salaries were RM20,000 per month each.

(4) Staff welfare comprises:

i) Cost of a holiday package to Sydney in October 2015 amounting to RM20,000 for Mr. Kesavan, Head of the Human Resource Department. The cost is made up of the cost of air fare of RM9,000 and the cost of accommodation and food of RM11,000. Mr Kesavan was in Canada for a week.

ii) Cost of a holiday package to Penang in April 2015 amounting to RM10,000 for 5 staff from the finance department. The amount does not include cost of accommodation and food (amounting to RM8,000) which were borne by the staff themselves.

iii) Cost of the childcare centre comprising:

	RM
Cost of building an extension to the original building	110,000
Cost of maintenance of the centre	16,000
	126,000

The childcare centre was purchased in March 2009 for RM380,000. It commenced to be used for the children of the staff in April 2010.

(5) Freight and insurance include premiums amounting to RM40,000 paid under a policy on the lives of the senior executives of the company. The objective of the policy is to provide the company with sufficient funds to pay retirement gratuities.

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(6) Subscriptions and donations comprise of:

	RM
Entrance fee to a trade association	22,000
Cash contributions to sponsor foreign cultural activities approved by the Ministry of Culture, Arts and Tourism	210,000
Cash donations to a public library	128,000
Cash donations to state government	25,000
	385,000

(7) The company entered into a car lease agreement on 15 January 2015 and commenced the lease rental payment on 15 February 2015 at RM6,000 per month. The cost of the new car is RM165,000.

(8) Provision for bad debts comprises:

	RM
Bad debts written off*	408,000
Increase in specific provision (trade debts)	80,000
Decrease in general provision (trade debts)	(27,000)
	461,000

* On 31 October 2015 the directors of SkyGix Sdn Bhd passed a resolution to write off a loan due from Techno Cloud Sdn Bhd, a subsidiary company of SkyGix Sdn Bhd.

(9) Foreign exchange loss comprises:

	RM
Foreign exchange loss arising from payment to foreign supplier for purchase of a machinery (realised)	40,000
Foreign exchange loss arising from payment received from foreign trade debtors converted into the Ringgit (realised)	25,000
Foreign exchange gain arising from payment made to foreign supplier for purchase of a processing machine (realised)	(20,000)
	45,000

(10) Rental of premises includes removal expenses amounting to RM29,000 from the existing place of business in Batu Pahat to new premises as the company expanded its business in Ayer Keroh, Melaka.

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(11) Legal and professional fees include:

	RM
Legal cost to secure a bank loan for expansion of the company's business	9,000
Legal fees for drawing up agreement to purchase land	12,000
Legal fees for registration of trade mark	32,000
Fees for advice on future listing of the company shares on Bursa Malaysia	21,000

(12) Motor vehicle expenses include depreciation amounting to RM210,000.

(13) Other information:

- Capital allowances brought forward from the year of assessment 2014 amounted to RM190,000.
- Capital allowances (excluding the childcare centre) for the year of assessment 2015 amounted to RM310,000.
- The adjusted loss brought forward from the year of assessment 2014 was RM157,000.

Required:

Based on the information given, compute the statutory income from business of SkyGix Sdn Bhd for the year of assessment 2015.

Note: Your computation should start with the profit before taxation figure. You should indicate by using the word 'nil' for any item that does not need adjustment. No explanation is required

(23 marks)

Part B

In business expense, there are principles of deduction. One of the principles is capital and revenue expenditure.

Required:

Differentiate between capital and revenue expenditure. **(2 marks)**

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QUESTION 2 [TOTAL 25 MARKS]

Pink Fong Sdn Bhd (PFSB) is involved in the manufacturing of house furniture. The company closes its accounts to 31 October each year. The capital expenditure incurred by the company was as follows:

Motor Vehicles

i) On 1 October 2013, PFSB purchased a lorry to transport the office furniture to the customer's office. The cost of the lorry was RM200,000. The lorry was disposed on 31 May 2015 for RM120,000.

ii) On 1 July 2013, PFSB purchased a car for the Chief Executive Officer. The car was purchased under hire purchase financing terms as follows:

	RM
Cash price	200,000
Deposit paid on 1 July 2013	20,000
Hire purchase interest	40,000
Total hire purchase price	220,000

The hire purchase price is repayable in 20 equal installments commencing on 1 August 2013.

Machinery

On 28 April 2015, PFSB purchased a machine at a cost of RM280,000. The company incurred additional cost of RM30,000 for preparing the site for the installation of the machinery and RM20,000 for installation cost.

Required:

a) Compute the capital allowances, balancing allowance/balancing charge and residual expenditure. **(21 marks)**

b) State the conditions that must be fulfilled for a person to be eligible to claim capital allowances. **(2 marks)**

c) Briefly explain two (2) situations where balancing charges might arise. **(2 marks)**

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QUESTION 3 [TOTAL 25 MARKS]

The partnership of Adelia and Naura commenced on 1 January 2008 and accounts are prepared to 31 December annually. The partnership agreement provided for the following:

1. Interest on capital : 10% per annum for each partner

Capital contribution	**RM**
Adelia	80,000
Naura	110,000

2. Salary (per month)

Adelia	2,100
Naura	2,400

3. Share of divisible income/(loss)

Adelia	1/4
Naura	3/4

On 30 June 2015, Adelia left the partnership and withdrew her accumulated capital and profits up to that date.

On 1 July 2015, Farisha joined the partnership and the new partnership agreement provided for the following:

1. Interest on capital : 10% per annum for each partner

Capital contribution	**RM**
Naura	120,000
Farisha	120,000

2. Salary (per month)

Naura	2,300
Farisha	2,300

3. Share of divisible income/(loss)

Naura	1/2
Farisha	1/2

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The partnership's trading, profit and loss account for the year ended 31 December 2015 was as follows:

	RM
Income from construction contract	9,417,900
Less : Cost of construction	(8,970,600)
Profit from construction	447,300
Other income	173,200
	620,500
Less : General overhead	(350,500)
Net profit for the year	270,000
Included in the general overhead are:	
Partners' salary	54,600
Partners' interest on capital	21,500
Depreciation on fixed asset	32,800

Capital allowance for the YA 2015 was RM40,400.

Required:

Calculate the statutory income of each partner from the partnership for the YA 2015.

Note: YA refers to year of assessment.

QUESTION 4 [TOTAL 12 MARKS]

Part A

Millenia Sdn Bhd purchased some high tech equipment from a non- resident company for installation in its factory in Damansara. The agreement provides for a non-resident employee of the supplier to carry out the installation and render related consultancy services to Millenia Sdn Bhd in Damansara. The amounts stipulated in the agreement are an installation fee of RM50,000 and a consultancy fee of RM270,000. The installation fee was paid on 1 June 2015. As for the consultancy fee, both parties agreed via a letter dated 10 July 2015 that a sum of RM70,000 be adjusted in their respective ledgers as 'contra' of off-set an overpayment of RM70,000 in respect of the purchase price of the equipment. The balance of the consultancy fee was paid on 1 August 2015.

The applicable rate of withholding tax is 10%.

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Required:

a) State the amount of withholding tax which Millenia Sdn Bhd is required to deduct from each of the payments mentioned in the scenario. (Ignore any double taxation agreement.) **(4 marks)**

b) State, with reasons when Millenia Sdn Bhd is required to deduct the withholding tax in (i) above. **(3 marks)**

c) State the stipulated period during which the taxes withheld must be remitted to the Inland Revenue Board. **(1 mark)**

d) Explain the tax consequences if Millenia Sdn Bhd failed to remit the withholding taxes to the Inland Revenue Board and allowed such taxes to remain unpaid. **(3 marks)**

PART B

State the type(s) of payments made to resident individuals which attract withholding tax, the tax rate(s) that apply and the status of the income in the hands. **(1 marks)**

QUESTION 5 [TOTAL 13 MARKS]

Encik Adrian, a citizen of Malaysia, signed a sale and purchase agreement with a property developer to purchase a house for RM600,000 on 1 March 2011. Prior to this date, he had never purchased any residential property.

Encik Adrian incurred legal fees of RM1,050 and stamp duty of RM15,700. On 15 April 2011, he received the keys to the house and moved in on 28 July 2011, after incurring additional renovation cost of RM80,000.

On 1 April 2014, Encik Adrian sold the house to his niece, Puan Zara, for RM500,000. They did not sign any agreement for this transaction. The market value of the house at that date was RM650,000. Puan Zara settled the consideration in full on 31 July 2015. The title to the house was transferred to Puan Zara on 2 September 2015.

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Required:

a) State, with reasons, the date Encik Adrian acquired the house and the date he disposed of the house to Puan Zara for the purposes of real property gains tax.

(3 marks)

b) Compute Encik Adrian's real property gains tax liability on the disposal of the house to Puan Zara. Assume that Encik Adrian did not elect for any exemption from real property gains tax. **(10 marks)**

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2015:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%
Public roads and ancillary structures which are recoverable through toll	10%	6%

Rates of Agriculture Allowances YA 2015:

Capital expenditure incurred on:	Rate
(a) the clearing and preparation of land for the purpose of agriculture	50%
(b) the planting (but not replanting) of crops on land cleared for planting	50%
(c) the construction on a farm of roads or bridges	50%
(d) construction on a farm of a building for the welfare or living accommodation (labour quarter, temple)	20%
(e) construction of any other building (smoke house, estate office)	10%

Rates of Real Property Gains Tax: ***Effective 1st January 2014 onwards***

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	Nil	5%	5%

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